

Global ground zero in Asia

Nouriel Roubini | Roubini Global Economics | 01 May 2014

The biggest geopolitical risk of our times is not a conflict between Israel and Iran over nuclear proliferation. Nor is it the risk of chronic disorder in an arc of instability that now runs from the Maghreb all the way to the Hindu Kush. It is not even the risk of Cold War II between Russia and the West over Ukraine.

All of these are serious risks, of course. But none is as serious as the challenge of sustaining the peaceful character of China's rise. That is why it is particularly disturbing to hear Japanese and Chinese officials and analysts compare the countries' bilateral relationship to that between Britain and Germany on the eve of World War I.

The disputes between China and several of its neighbors over disputed islands and maritime claims (starting with the conflict with Japan) are just the tip of the iceberg. As China becomes an even greater economic power, it will become increasingly dependent on shipping routes for its imports of energy, other inputs, and goods. This implies the need to develop a blue-water navy to ensure that China's economy cannot be strangled by a maritime blockade.

But what China considers a defensive imperative could be perceived as aggressive and expansionist by its neighbors and the United States. And what looks like a defensive imperative to the US and its Asian allies – building further military capacity in the region to manage China's rise – could be perceived by China as an aggressive attempt to contain it.

Historically, whenever a new great power has emerged and faced an existing power, military conflict has ensued. The inability to accommodate Germany's rise led to two world wars in the twentieth century. Japan's confrontation with another Pacific power – the US – brought World War II to Asia.

Of course, there are no iron laws of history. China and its interlocutors are not fated to repeat the past. Trade, investment, and diplomacy may defuse rising tensions. But will they?

Europe's great powers finally tired of slaughtering one another. Facing a shared threat from the Soviet bloc and US prodding, European countries created institutions to promote peace and cooperation, leading to economic and monetary union, now a banking union, and possibly in the future, a fiscal and political union.

But no such institutions exist in Asia, where long-standing historical grievances among China, Japan, Korea, India, and other countries remain open wounds. Even two of America's most important allies – Japan and South Korea – find themselves in a bitter dispute about the Korean "comfort women" forced to work in Japanese military brothels before and during World War II, despite an official apology from Japan 20 years ago.

Why are such tensions among Asia's great powers becoming more serious, and why now?

For starters, Asia's powers have recently elected or are poised to elect leaders who are more nationalistic than their predecessors. Japanese Prime Minister Shinzo Abe, Chinese President Xi Jinping, South Korean President Park Geun-hye, and Narendra Modi, who is likely to be India's next prime minister, all fall into this category.

Second, all of these leaders now face massive challenges stemming from the need for structural reforms to sustain satisfactory growth rates in the face of global economic forces that are disrupting old models. Different types of structural reforms are crucially important in China, Japan, India, Korea, and Indonesia. If leaders in one or more of these countries were to fail on the economic front, they could feel politically constrained to shift the blame onto foreign "enemies."

Third, many US allies in Asia (and elsewhere) are wondering whether America's recent strategic "pivot" to Asia is credible. Given the feeble US response to the crises in Syria, Ukraine, and other geopolitical hot spots, the American security blanket in Asia looks increasingly tattered. China is now testing the credibility of US guarantees, raising the prospect that America's friends and allies – starting with Japan – may have to take more of their security needs into their own hands.

Finally, unlike Europe, where Germany accepted the blame for the horrors of WWII and helped to lead a decades-long effort to construct today's European Union, no such historical agreement exists among Asian countries. As a result, chauvinist sentiments have been instilled in generations that are far removed from the horrors of past wars, while institutions capable of fostering economic and political cooperation remain in their infancy.

This is a lethal combination of factors that risks eventually leading to military conflict in a key region of the global economy. How can the US credibly pivot to Asia in a way that does not fuel Chinese perceptions of attempted containment or US allies' perceptions of appeasement of China? How can China build a legitimate defensive military capability that a great power needs and deserves without worrying its neighbors and the US that it aims to seize disputed territory and aspires to strategic hegemony in Asia? And how can Asia's other powers trust that the US will support their legitimate security concerns, rather than abandon them to effective Finlandisation under Chinese domination?

It will take enormous wisdom on the part of leaders in the region – and in the US – to find diplomatic solutions to Asia's multitude of geopolitical and geo-economic tensions. In the absence of supporting regional institutions, there is little else to ensure that the desire for peace and prosperity prevails over conditions and incentives that tend toward conflict and war.

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